CNIC CENTRAL NONAPPROPRIATED FUNDS

Combined Financial Statements and Supplementary Information

September 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

CNIC CENTRAL NONAPPROPRIATED FUNDS

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KPMG LLP
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Independent Auditors' Report

Mr. Ed Cannon, Director, Fleet and Family Readiness Programs, CNIC N9
and
Morale, Welfare and Recreation and Navy Exchange Audit Committee:

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Commander, Navy Installations Command (CNIC) Central Nonappropriated Funds (the Funds), which comprise the combined balance sheets as of September 30, 2013 and 2012, and the related combined statements of loss, comprehensive income (loss), changes in net deficit, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements on the basis of accounting described in note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of CNIC Central Nonappropriated Funds as of September 30, 2013 and 2012, and the results of their operations and cash flows for the years then ended, on the basis of accounting described in note 2.

Emphasis of Matter

As explained in note 2 to the combined financial statements, the accompanying combined financial statements are prepared on the basis of accounting prescribed or permitted by the Department of Defense, Office of the Comptroller, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2014 on our consideration of the Funds' internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
August 14, 2014

CNIC CENTRAL NONAPPROPRIATED FUNDS

Combined Balance Sheets

September 30, 2013 and 2012

(Basis prescribed by the Department of Defense, Office of the Comptroller)

Assets	**2013**	**2012**
Current assets:		
Cash and cash equivalents	$ 33,822,957	58,304,928
Certificates of deposit	361,250,000	226,500,000
Investments (note 4)	54,857,071	25,987,088
Accounts receivable	56,928,004	24,850,988
Accrued interest receivable	2,918,740	2,534,772
Prepaid expenses	2,955,894	1,413,419
Total current assets	512,732,666	339,591,195
Property, plant, and equipment (note 6)	718,071	508,531
Construction in progress (note 7)	19,303,873	58,066,562
Prepaid projects	32,903,273	—
Certificates of deposit, noncurrent (note 4)	99,750,000	280,000,000
Investments, noncurrent (note 4)	512,971,125	475,318,581
Loans receivable (note 5)	40,922,139	16,564,785
Total assets	$ 1,219,301,147	1,170,049,654
Liabilities and Net Deficit		
Current liabilities:		
Accounts payable	$ 35,884,337	40,653,015
Accrued salaries, wages, and employee benefits	6,473,213	5,757,669
Borrowings against reverse repurchase agreement (note 9)	25,156,250	—
Liability for construction projects	—	2,678,650
Deferred revenue	331,877,073	328,045,625
Postretirement benefit obligation, current (note 10)	4,215,806	3,753,229
Accrued self-insurance, current (note 13)	8,500,000	8,000,000
Deposits from installations for investment:		
Installations	587,269,329	504,997,625
Secretary of Defense	53,961,951	53,120,457
Armed Forces Retirement Home	1,698,563	1,786,462
Warfighter and Family Services	22,205,358	32,466,725
United States Naval Academy	21,317,451	17,644,770
Total current liabilities	1,098,559,331	998,904,227
Capital asset investment liability (note 8)	5,385,363	5,385,363
Unfunded pension liability (note 10)	37,900,033	188,052,044
Accrued self-insurance, noncurrent (note 13)	18,883,000	16,900,286
Postretirement benefit obligation, noncurrent (note 10)	168,981,413	207,775,922
Reserve for foreign national liabilities	775,000	775,000
Total liabilities	1,330,484,140	1,417,792,842
Commitments and contingencies		
Net deficit:		
Reinvested (deficit) earnings	(9,029,862)	29,312,832
Accumulated other comprehensive loss (note 16)	(102,153,131)	(277,056,020)
Total net deficit	(111,182,993)	(247,743,188)
Total liabilities and net deficit	$ 1,219,301,147	1,170,049,654

See accompanying notes to combined financial statements.

CNIC CENTRAL NONAPPROPRIATED FUNDS

Combined Statements of Loss

Years ended September 30, 2013 and 2012

(Basis prescribed by the Department of Defense, Office of the Comptroller)

		2013	2012
Support and revenues:			
Assessments on MWR installations (note 12)	$	69,944,216	63,770,438
Assessments on NGIS installations (note 12)		14,071,553	13,396,174
Assessments on NGIS field operations sales (note 12)		9,945,235	9,280,618
Assessments on ship's store sales and reimbursements (note 12)		1,481,167	1,793,061
Special projects revenues		16,457,382	21,759,771
Common support services		6,618,876	3,426,672
Facility and operating grants received		308,778	15,331,129
Navy motion picture admissions (note 12)		1,062,220	1,202,055
Miscellaneous		4,579,319	1,883,351
Total support and revenues		124,468,746	131,843,269
Expenses:			
General and administrative expenses, net (note 15)		142,637,793	137,521,143
Facility and operating grants disbursed		34,110,416	52,556,676
Total expenses		176,748,209	190,077,819
Net loss from operations		(52,279,463)	(58,234,550)
Other income:			
Investment income		16,632,646	20,370,127
NEXCOM dividend (note 12)		5,756,803	540,633
Net loss	$	(29,890,014)	(37,323,790)

See accompanying notes to combined financial statements.

CNIC CENTRAL NONAPPROPRIATED FUNDS

Combined Statements of Comprehensive Income (Loss)

Years ended September 30, 2013 and 2012

(Basis prescribed by the Department of Defense, Office of the Comptroller)

	Fiscal year	
	2013	**2012**
Net loss	$ (29,890,014)	(37,323,790)
Other comprehensive income (loss):		
Net pension and postretirements benefits adjustment (note 10)	184,062,771	(114,975,255)
Change in fair value of available-for-sale securities	(9,159,882)	(724,345)
Net comprehensive income (loss)	$ 145,012,875	(153,023,390)

See accompanying notes to combined financial statements.

CNIC CENTRAL NONAPPROPRIATED FUNDS

Combined Statements of Changes in Net Deficit

Years ended September 30, 2013 and 2012

(Basis prescribed by the Department of Defense, Office of the Comptroller)

		Reinvested earnings (deficit)	Accumulated other comprehensive loss	Total net deficit
Balances, September 30, 2011	$	50,878,559	(161,356,420)	(110,477,861)
Net loss		(37,323,790)	—	(37,323,790)
Pension and other postretirement benefits adjustments		—	(114,975,255)	(114,975,255)
Change in unrealized gain on available-for-sale investments		—	(724,345)	(724,345)
Transfer of capital assets and grants to local installations		(7,862,569)	—	(7,862,569)
Cash transfer related to capital assets to other governmental agency		(569,399)	—	(569,399)
Cash transfers from other NAFIs, net		14,202,031	—	14,202,031
Capital contributions from Department of Defense		9,988,000	—	9,988,000
Balances, September 30, 2012		29,312,832	(277,056,020)	(247,743,188)
Net loss		(29,890,014)	—	(29,890,014)
Pension and other postretirement benefits adjustments		—	184,062,771	184,062,771
Change in unrealized gain on available-for-sale investments		—	(9,159,882)	(9,159,882)
Transfer of capital assets and grants to local installations		(34,535,950)	—	(34,535,950)
Cash transfers from other NAFIs, net		16,138,270	—	16,138,270
Capital contributions from Department of Defense		9,945,000	—	9,945,000
Balances, September 30, 2013	$	(9,029,862)	(102,153,131)	(111,182,993)

See accompanying notes to combined financial statements.

CNIC CENTRAL NONAPPROPRIATED FUNDS

Combined Statements of Cash Flows

Years ended September 30, 2013 and 2012

(Basis prescribed by the Department of Defense, Office of the Comptroller)

	2013	2012
Cash flows from operating activities:		
Net loss	$ (29,890,014)	(37,323,790)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	320,863	238,797
Changes in assets and liabilities:		
Accounts receivable	(32,077,016)	1,612,999
Accrued interest receivable	(383,968)	(275,785)
Prepaid expenses	(1,542,475)	(1,049,791)
Pension liability	(9,327,459)	(30,170,120)
Accounts payable	(4,768,678)	14,395,720
Accrued salaries, wages, employee benefits, and self-insurance	3,198,258	171,406
Deferred revenue	3,831,448	21,364,738
Postretirement benefit obligation	4,906,287	18,002,224
Net cash used in operating activities	(65,732,754)	(13,033,602)
Cash flows from investing activities:		
Capital expenditures	(25,084,033)	(36,412,353)
Advance payments for capital expenditures	(32,182,495)	—
Proceeds from maturities and repayments of investments and certificates of deposit:		
Fixed income maturity securities	7,994,063	4,999,063
Certificates of deposit	675,500,000	182,750,000
Mortgage-backed securities	35,370,469	59,848,237
Proceeds from sales of investments:		
Fixed income maturity securities	84,105,641	118,790,230
Purchases of investments and certificates of deposit:		
Fixed maturity securities	(192,372,632)	(244,363,467)
Certificates of deposit	(630,000,000)	(213,750,000)
Mortgage-backed securities	(10,779,950)	(18,725,000)
Net cash used in investing activities	(87,448,937)	(146,863,290)
Cash flows from financing activities:		
Net change in deposits from installations for investment:		
Installations	82,271,704	51,938,686
Secretary of Defense	841,494	5,174,367
Armed Forces Retirement Home	(87,899)	(57,613)
Fleet and Family Readiness	(10,261,367)	13,030,442
United States Naval Academy	3,672,681	17,644,770
Payments received on loans receivable	1,023,587	1,018,742
Repayments on borrowings against reverse repurchase agreement	(50,218,750)	—
Borrowings against reverse repurchase agreement	75,375,000	—
Cash transferred from (to) other NAFIs or governmental agency	16,138,270	(569,399)
Capital contribution from the Department of Defense	9,945,000	9,988,000
Net cash provided by financing activities	128,699,720	98,167,995
Net decrease in cash and cash equivalents	(24,481,971)	(61,728,897)
Cash and cash equivalents, beginning of year	58,304,928	120,033,825
Cash and cash equivalents, end of year	$ 33,822,957	58,304,928
Supplemental disclosures of cash flow information:		
Noncash investing activity – transfers of fixed assets to installations	$ 34,535,950	7,862,569
Noncash investing and financing activities – transfers of fixed assets to installations in exchange for loans receivable	25,380,941	—

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying combined financial statements is as follows:

(a) Organization

The Commander, Navy Installations Command (CNIC), Central Nonappropriated Funds (the Funds or Central Funds) are established, organized, operated, and controlled by official regulations issued by the U.S. Department of Defense (DoD) and the Department of the Navy. They are not operated for the financial profit of any individual or group. The Funds are exempt from payment of federal income taxes and, as instrumentalities of the U.S. government, are exempt from state and local taxes, including income, real estate and personal property, sales and use, and gasoline taxes.

The combined financial statements include the CNIC Central Funds, which support the Nonappropriated Fund Instrumentalities (NAFIs). The NAFIs and Central Funds are the administrative responsibility of the Director of the Morale, Welfare and Recreation (MWR) Division of CNIC.

(b) Principles of Combination

The combined financial statements include the accounts of the following CNIC Central Nonappropriated Funds:

- MWR Fund
- MWR Capital Fund
- Navy Central Billeting Fund (Navy Gateway Inns and Suites or NGIS)
- NGIS Capital Fund
- Navy Central Flying Club Fund
- Civilian Nonappropriated Fund (Civilian NAFI)
- Fisher Houses Fund.

These Funds are the administrative responsibility of the Fleet and Family Readiness Program Manager under CNIC. Revenue generated through assessments and earnings on investments is distributed to the installations represented by the above funds through such programs as management guidance, training, loans and grants for facility improvements, construction and operations, accounting and banking services, employee benefits, and insurance coverage.

All significant interfund balances and transactions have been eliminated in combination.

(c) Cash Equivalents

The Funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The carrying amount of cash equivalents approximates fair value. Cash equivalents of $33,500,000 and $57,850,000 at September 30, 2013 and 2012, respectively, consist of money market mutual funds and are carried at fair value (note 3).

(d) Investments and Certificates of Deposit

Investments at September 30, 2013 and 2012 consist of U.S. government-guaranteed securities, including U.S. government Treasury and agency securities, repurchase agreements, and government-backed corporate bonds and mortgages. The Funds classify their investment securities as available for sale.

Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive loss until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in an impairment charge to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Funds consider whether they have the ability and intent to hold the investment until a market price recovery and consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in. As of September 30, 2013 and 2012, the Funds did not have any available-for-sale securities that were considered to be other-than-temporarily impaired.

The Funds also hold certificates of deposit and present them separately on the combined balance sheets because they are classified as held-to-maturity and carried at amortized cost. Held-to maturity securities are those securities in which the Funds have the ability and intent to hold until maturity. The Funds’ policy is to not invest in certificates of deposit over five years in duration.

(e) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the combined statements of cash flows. As of September 30, 2013 and 2012, the Funds do not maintain an allowance for doubtful accounts for estimated losses because management considers all of the accounts receivable to be fully collectible. In establishing the required allowance, if any, management considers historical losses adjusted to take into account current market conditions and their customers’ financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Funds do not have any off-balance-sheet credit exposure related to their customers.

(f) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets as follows:

	Estimated useful life in years
Classification:	
Vehicles	5–8
Furnishings and equipment	2–8
Computer equipment	2–3

All of the Funds conduct their operations in buildings constructed with either nonappropriated or appropriated funds. However, the Funds are not permitted to own or lease real property. The U.S. government receives and retains title to buildings constructed by the installations with nonappropriated funds, and the unrestricted use of such buildings is available to the installations.

(g) NEXCOM Dividends

The MWR Fund receives dividends from the Navy Exchange Program of the Navy Exchange Service Command (NEXCOM) based on percentage of NEXCOM profits. Currently, 25% of NEXCOM profits at each installation are distributed to local installations directly via the Funds. The Funds retain a share of the NEXCOM dividend received for the central capitalization and operating support to field installations.

The MWR/NEXCOM board of directors approves and grants the Funds their portion of the NEXCOM dividend. During the years ended September 30, 2013 and 2012, $5,756,803 and $540,633, respectively, were received for operations of the Funds and are included in other income in the combined statements of loss.

As of September 30, 2013, dividends in the amount of $3,400,000 have been declared, but not paid to the Funds by NEXCOM. These dividends are scheduled to be paid to the Funds during the year ending September 30, 2014.

(h) Revenue Recognition

The Funds recognize revenue primarily from assessments on MWR installations, NGIS installations, ship store profits, and the Navy Motion Picture Services based on agreed-upon formulas under the accrual method of accounting (note 12).

(i) Facility and Operating Grants from Installations

Facility grants represent cash provided by the Funds to certain installations for facility construction and improvements. Operating grants represent cash provided by the Funds to certain installations for operations. The Funds make such advances without anticipation of repayment by the installations. Generally, in the operation of the installations administered by the Funds, the aggregate flow of cash

(Continued)

in the form of facility and operating grants to installations throughout their existence substantially exceeds the amount returned upon their disestablishment.

(j) Use of Estimates

The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation allowances for receivables, and pension assets and obligations related to employee benefits. Actual results could differ from those estimates.

(k) Pension Plan and Other Postretirement Benefits

The Funds have a voluntary, contributory, defined-benefit retirement plan covering all permanent, full-time, regular, and part-time nonappropriated fund civilian employees. Employee contributions are equal to 1% of annual earnings. The plan is funded by the Funds on behalf of themselves and the local installations. No pension expense is recorded on the books of the local installations. The Funds also provide postretirement medical, dental, and life insurance benefits to retired service persons.

The Funds record annual amounts relating to their pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates, and healthcare cost trend rates. The Funds review their assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive loss and amortized to net periodic cost over future periods using the corridor method. The Funds believe that the assumptions utilized in recording its obligations under its plans are reasonable based on their experience and market conditions.

The net periodic costs are recognized as eligible employees render the services necessary to earn the pension and postretirement benefits.

The Funds apply the recognition and disclosure provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or the Codification) Topic 715, *Compensation Retirement Benefits* (ASC 715). ASC 715 requires companies to recognize the funded status of defined-benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through other comprehensive loss to the extent those changes are not included in the net periodic cost. The funded status reported on the combined balance sheets as of September 30, 2013 and 2012 under ASC 715 was measured as the difference between the fair value of plan assets and the benefit obligation on a plan-by-plan basis.

(l) Subsequent Events

The Funds have evaluated subsequent events for potential recognition and/or disclosures through August 14, 2014, the date the combined financial statements included were issued.

(Continued)

(2) Accounting Practices Prescribed by the Department of Defense, Office of the Comptroller

The accompanying combined financial statements have been prepared in conformity with the accounting practices prescribed or permitted by the DoD, Office of the Comptroller, whose practices vary in some respects from accounting principles generally accepted in the United States of America. Related guidance is provided by Secretary of the Navy, Assistant Secretary of the Navy (FM), and CNIC. Specific guidance is provided by DoD Instruction No. 1015.15, *Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources*. The significant differences are as follows:

(a) Accounting for Appropriated Funds

The Funds receive annual appropriated funding from the U.S. Congress to support various mission sustaining and basic community support activities. In accordance with DoD Instruction No. 1015.15, the Funds are required to report this appropriated funding net of the Funds' expenses. During the years ended September 30, 2013 and 2012, appropriated funds in the amount of $120,207,736 and $134,268,781, respectively, were recorded as an offset to general and administrative expenses (note 15).

(b) NEXCOM Dividend

The Funds receive dividends from NEXCOM on a regular basis. Accounting principles generally accepted in the United States of America require that dividend income be recognized when declared. However, in accordance with DoD Instruction No. 1015.15, the Funds should record NEXCOM dividends as nonoperating income when received. As of September 30, 2013, dividends in the amount of $3,400,000 have been declared, but not paid to the Funds by NEXCOM. These dividends are scheduled to be paid to the Funds during the year ending September 30, 2014.

(3) Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, accounts receivable, accrued interest receivable, prepaid expenses, accounts payable, accrued salaries, wages, and employee benefits, receivable/liability for construction projects, borrowings against reverse repurchase agreement, and deposits from installations for investment: The fair value of these financial instruments approximates the historical cost because of the short maturity of these items. Deposits from installations for investment are available on demand to respective installation without restrictions.

Certificates of deposit: Fair value is estimated by comparing the stated rates of the certificates of deposit to current market interest rates for similar instruments. The difference between fair value and carrying cost was not material to the combined financial statements.

Loans receivable, capital asset investment liability, accrued self-insurance, and reserve for foreign national liabilities: It is not practical to estimate the fair value of these financial instruments due to the uncertainty of the timing of their ultimate settlements.

Cash equivalents, current investments, and noncurrent investments: Fair value for these items is determined based upon quoted market prices, quoted prices for similar or identical securities, and/or pricing models.

Assets and liabilities are categorized based upon a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include the following:

Level 1 – Observable inputs such as quoted prices in active markets: The Funds' Level 1 securities consist of money market funds. Level 1 securities are included in cash equivalents in the accompanying combined balance sheets. These securities are actively traded, and therefore, the fair value for these securities is based on quoted market prices on one or more securities exchanges.

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable: The Funds' Level 2 securities consist of U.S. government agency securities and U.S. government agency mortgage-backed securities and are included in current investments and noncurrent investments in the accompanying combined balance sheets. The combined balance sheets' investments in securities classified as Level 2 are traded frequently though not necessarily daily. Fair value for these securities is determined using a market approach based on quoted prices for similar securities in active markets; quoted prices for identical securities in inactive markets; or pricing models utilizing inputs other than quoted prices that are observable, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions: The Funds did not have any Level 3 securities as of or for the years ended September 30, 2013 and 2012.

The Funds have not elected to apply the fair value option available under current guidance for any financial assets and liabilities that are not required to be measured at fair value. Transfers between levels, as a result of changes in the inputs used to determine fair value, are recognized as of the beginning of the reporting period in which the transfer occurs. There were no transfers between levels for the years ended September 30, 2013 and 2012.

The following tables set forth by level, within the fair value hierarchy (there were no Level 3 valued assets), the Funds' assets at fair value as of September 30, 2013 and 2012:

		2013	
	Level 1	**Level 2**	**Total**
Money market funds	$ 33,500,000	—	33,500,000
U.S. agency securities	—	419,118,121	419,118,121
U.S. agency mortgage-backed securities	—	148,710,075	148,710,075
	$ 33,500,000	567,828,196	601,328,196

	2012		
	Level 1	**Level 2**	**Total**
Money market funds	$ 57,850,000	—	57,850,000
U.S. agency securities	—	325,077,098	325,077,098
U.S. agency mortgage-backed securities	—	176,228,571	176,228,571
	$ 57,850,000	501,305,669	559,155,669

(4) Investments

The various installations participate in a centralized investment and cash management function administered by CNIC. In accordance with this program, the installations' excess cash is swept by CNIC's Treasury Department to a central bank account (concentration account). This account additionally makes all disbursements. The installations' individual prorated shares of the principal aggregate amount of this concentration account, based upon their individual deposits, into and withdrawals from such account, are accounted for by CNIC's Treasury Department.

The funds in this concentration account, which exceed operating needs, are invested under the direction of CNIC personnel. CNIC utilizes the following investment vehicles: U.S. agency securities, U.S. agency mortgage-backed securities, certificates of deposit, and money market funds. The majority of income from the investments is distributed among the MWR, NGIS, and Fisher Houses Funds.

The prorated portion of the investment balance representing the installations is recorded as a deposit liability account on the MWR Funds' accounts. The total investment balance represents funds invested on behalf of the MWR Field, NGIS Field, Civilian MWR Field, Ship Recreation Funds, Armed Forces Retirement Home, the Secretary of Defense, and Fleet and Family Services as well as the Funds. The Funds act as an administrative function for investment management purposes for these entities. The Funds classify U.S. agency and U.S. agency mortgage-backed securities as available-for-sale securities.

The cost, unrealized gains and losses, and fair values of the Funds' available-for-sale securities at September 30, 2013 and 2012 are summarized as follows:

	2013			
	Cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
U.S. agency securities	$ 418,364,029	3,748,560	(2,994,468)	419,118,121
U.S. agency mortgage-backed securities	147,596,573	1,442,248	(328,746)	148,710,075
	$ 565,960,602	5,190,808	(3,323,214)	567,828,196

	2012			
	Cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
U.S. agency securities	$ 318,091,101	6,985,997	—	325,077,098
U.S. agency mortgage-backed securities	172,187,092	4,213,783	(172,304)	176,228,571
	$ 490,278,193	11,199,780	(172,304)	501,305,669

At September 30, 2013, seven U.S. agency mortgage-backed securities and eleven U.S. agency securities were in an unrealized loss position, which were not deemed to be other-than-temporarily impaired by the Funds. All eighteen were in a continuous loss position for less than 12 months with a fair value of $270,462,838 and gross unrealized losses of $3,323,214.

The following table lists the maturities of securities held, which are classified as available-for-sale at September 30, 2013:

	2013	
	Cost	**Fair value**
Due in one year or less	$ 13,591,022	14,957,222
Due after one year through five years	404,773,007	404,160,899
U.S. agency mortgage-backed securities	147,596,573	148,710,075
	$ 565,960,602	567,828,196

(5) Loans Receivable

Loans receivable represent the aggregate of loans provided by the Funds to individual installations for operating capital and construction projects. The repayment period begins upon transfer of the completed project from the Funds to the installation. These loans are noninterest bearing and are due from the Funds as follows at September 30, 2013 and 2012:

	2013	**2012**
Ship Recreation Fund	$ 8,816	42,832
Navy MWR construction	40,913,323	16,521,953
	$ 40,922,139	16,564,785

(6) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at September 30, 2013 and 2012:

		2013	2012
Furnishings and equipment	$	8,798,873	9,492,815
Vehicles		3,644,694	3,587,198
Computer equipment		1,040,597	639,257
		13,484,164	13,719,270
Less accumulated depreciation		12,766,093	13,210,739
	$	718,071	508,531

(7) Construction in Progress

The MWR Fund accounts for construction projects in progress for local activities until completion. When completed, the assets are transferred to local installations. The balance in construction in progress was $19,303,873 and $58,066,562 at September 30, 2013 and 2012, respectively.

Completed projects and other capital assets with capitalized costs totaling $34,535,950 and $7,862,569 were transferred to local installations during the years ended September 30, 2013 and 2012, respectively.

(8) Capital Asset Investment Liability

Capital asset investment liability consists of approved obligations for construction projects from the MWR for the Return on Investment (ROI) Program and Capital Program. The balance was $5,385,363 at September 30, 2013 and 2012, respectively.

(9) Master Reverse Repurchase Agreement and Letter of Credit

The Funds currently utilize a master reverse repurchase agreement with Union Bank, which was initially executed on June 28, 2005 with Bank of America (BofA) and was transferred to Union Bank during 2012. The annual interest rate on any borrowings under this agreement is negotiated at the time of borrowing, based on market conditions and collateral involved.

In September 2013, CNIC borrowed $25,000,000 against this reverse repurchase agreement with Union Bank which, along with accrued interest, was outstanding on September 30, 2013. This borrowing was repaid in October 2013.

The Funds also maintain a $12,100,000 letter of credit with BofA for their workers' compensation self-insurance, which expires on August 23, 2014 (note 13).

(10) Retirement Plan and Postretirement Benefits

(a) Retirement and Other Postretirement Benefits

In accordance with ASC 715, employers are required to recognize the funded status of defined-benefit postretirement plans in the combined balance sheets and as an increase and/or reduction of net worth in the combined statements of comprehensive income (loss) as well as certain additional disclosures.

The accumulated benefit obligation for the retirement plan was $397,864,117 and $435,088,939 as of September 30, 2013 and 2012, respectively. The accumulated postretirement benefit obligation for the other postretirement plan was $173,197,219 and $211,529,151 as of September 30, 2013 and 2012, respectively. The benefit obligation at the end of the year, employer contributions, plan participants' contributions, benefits paid, the fair value of plan assets at the end of the year, and the funded status of the plan for 2013 and 2012 are as follows:

	2013		2012	
	Pension benefits	**Other postretirement benefits**	**Pension benefits**	**Other postretirement benefits**
Projected benefit obligation at end of year	$ (474,192,486)	(173,197,219)	(548,378,279)	(211,529,151)
Employer contributions	68,198,746	4,323,000	68,459,693	3,797,286
Plan participants' contributions	2,059,111	—	1,893,151	—
Benefits paid	31,639,884	4,323,000	16,800,003	3,797,286
Fair value of plan assets at end of year	436,292,453	—	360,326,235	—
Funded status	(37,900,033)	(173,197,219)	(188,052,044)	(211,529,151)

Net pension and other postretirement benefits costs include the following for the years ended September 30, 2013 and 2012:

	2013		2012	
	Pension benefits	**Other postretirement benefits**	**Pension benefits**	**Other postretirement benefits**
Service cost	$ 27,644,111	10,086,558	20,328,587	7,120,502
Interest cost	22,505,646	8,573,235	23,090,404	8,280,685
Expected return on plan assets	(27,825,480)	—	(23,097,879)	—
Amortization:				
Prior service cost	2,234,913	—	2,234,913	3,176,185
Actuarial loss	19,346,500	5,535,091	14,241,223	2,951,567
Net periodic cost	$ 43,905,690	24,194,884	36,797,248	21,528,939

The pension benefit obligations were measured as of the Funds' September 30, 2013 fiscal year end and are based on participant data as of the census date, January 1, 2013. The other postretirement benefits obligations were measured as of the Funds' September 30, 2013 fiscal year end and are based on participant data as of the census date, October 1, 2013.

Amounts recognized in accumulated other comprehensive loss as of September 30, 2013 and 2012 consist of the following:

	2013			2012		
	Pension benefits	Other postretirement benefits	Total	Pension benefits	Other postretirement benefits	Total
Net unrecognized actuarial loss	$ (64,153,855)	(36,014,573)	(100,168,428)	(187,777,897)	(94,218,389)	(281,996,286)
Net unrecognized prior service costs	(3,852,297)	—	(3,852,297)	(6,087,210)	—	(6,087,210)
	$ (68,006,152)	(36,014,573)	(104,020,725)	(193,865,107)	(94,218,389)	(288,083,496)

The following amounts were recognized in 2013 and 2012 as an increase (decrease) in accumulated other comprehensive loss in the accompanying combined balance sheets:

	2013			2012		
	Pension benefits	Other postretirement benefits	Total	Pension benefits	Other postretirement benefits	Total
Prior service credit	$ (2,234,913)	—	(2,234,913)	(12,607)	(3,176,185)	(3,188,792)
Net loss (gain)	(123,624,042)	(58,203,816)	(181,827,858)	66,185,275	51,978,772	118,164,047
	$ (125,858,955)	(58,203,816)	(184,062,771)	66,172,668	48,802,587	114,975,255

The prior service cost and net loss that will be amortized from accumulated other comprehensive loss into net periodic expense over the next fiscal year are estimated to be as follows:

	Pension benefits	Other postretirement benefits
Prior service cost	$ 2,232,241	—
Net loss	5,764,048	1,376,414
Estimated net periodic benefit cost	$ 7,996,289	1,376,414

The following table sets forth the weighted average assumptions used to determine the benefit obligations at September 30, 2013 and 2012:

	2013		2012	
	Pension benefits	**Other postretirement benefits**	**Pension benefits**	**Other postretirement benefits**
Discount rate	5.07%	5.15%	4.08%	4.09%
Rate of compensation increase	4.00	N/A	4.00	N/A
Pension increases for in-payment benefits	3.00	N/A	3.00	N/A
Pension increases for deferred benefits	3.00	N/A	3.00	N/A
Current health care cost trend rate	N/A	8.00	N/A	8.50
Ultimate health care cost trend rate	N/A	4.75	N/A	4.75
Year of ultimate trend rate	N/A	2020	N/A	2020

The following table sets forth the weighted average assumptions used to determine net periodic benefit costs for the years ended September 30, 2013 and 2012:

	2013		2012	
	Pension benefits	**Other postretirement benefits**	**Pension benefits**	**Other postretirement benefits**
Discount rate	4.08%	4.09%	5.18%	5.25%
Rate of compensation increase	4.00	N/A	4.00	N/A
Expected long-term rate of return on plan assets	8.00	N/A	8.00	N/A
Pension increases for in-payment benefits	3.00	N/A	3.00	N/A
Pension increases for deferred benefits	3.00	N/A	3.00	N/A
Healthcare cost trend rate assumed for next year	N/A	8.50	N/A	8.50
Ultimate trend rate	N/A	4.75	N/A	4.75
Year that the rate reaches the ultimate trend rate	N/A	2020	N/A	2020

The Funds’ expected long-term rate of return on plan assets is updated periodically, taking into consideration the Funds’ target asset allocation, historical returns on the types of assets held, and the current and forecasted economic environment. In selecting the expected long-term rate of return on assets, the Funds considered the rate of earnings expected on the asset classes within the portfolio invested or to be invested to provide for the benefits of these plans. This included considering the asset allocation and the expected returns likely to be earned over the life of the plans. Equity securities are expected to return 8% to 13% over the long term, while cash and fixed income are expected to return between 5% and 10%.

During the years ended September 30, 2012 and 2011, the Funds identified operational and administrative errors in the calculation of certain retiree benefit payments. During these years, management recalculated substantially all of its retiree benefit payments and determined that the accumulated benefit underpayments (including interest calculated at a 3% annual rate) amounted to approximately $15.6 million. During the year ended September 30, 2013, management paid these accumulated underpayments to retirees and beneficiaries. The ultimate resolution of these calculation errors is subject to approval of the CNIC Retirement Plan's application to the Voluntary Correction Program that was filed with the Internal Revenue Service on December 13, 2012.

During the year ended September 30, 2012, management performed an updated analysis of credited service for active employees participating in the pension plan. As a result, a net actuarial gain of $19.6 million was recognized as of and for the year ended September 30, 2012. This net actuarial gain is included in comprehensive loss on the combined statement of comprehensive loss for the year ended September 30, 2012.

(b) Additional Information

The asset allocation for the Funds is as follows for September 30, 2013 and 2012:

	Pension	
	2013	**2012**
Asset category:		
Equity securities	29%	30%
Debt securities	33	29
International equity securities	25	26
Real estate	9	10
Other	4	5
	100%	100%

Target allocation percentages were 29% equity securities, 31% debt securities, 25% international equity, 10% real estate, and 5% other investments in 2013 and 2012.

The Funds' policy for determining asset-mix targets includes the periodic development of asset/liability studies by a nationally recognized third-party investment consultant (to match their expected liability with appropriate expected long-term rate of return and expected risk for various investment portfolios). The most recent asset/liability study was completed in 2011. The Funds consider these studies in the formal establishment of asset-mix targets that are presented to and approved by the plan trustees.

(c) Fair Value of Plan Assets

The following is a description of the valuation methodologies used for pension plan assets measured at fair value.

Common collective trusts: Valued at the net asset value (NAV) of shares held by the plan at year-end, based on the quoted market prices of the underlying assets of the trusts. The investments are valued using NAV as a practical expedient for fair value. The common collective trusts hold domestic equity securities, debt securities, commodity futures, international equity securities, and real estate investments. There are no unfunded commitments or significant restrictions on the ability to sell these investments at September 30, 2013.

Pooled separate account: Valued at the NAV of shares held by the plan at year-end, based on the quoted market prices of the underlying assets of the funds. The investments are valued using NAV as a practical expedient for fair value. The pooled separate account holds debt securities.

U.S. Treasury securities: Valued using recent trades of the same or similar securities.

Corporate bonds and other fixed income securities: Valued using a market approach based on quoted prices for similar securities in active markets; quoted prices for identical securities in inactive markets; or pricing models utilizing inputs other than quoted prices that are observable, either directly or indirectly, for substantially the full term of the financial instrument.

Money market funds: Valued at the closing price reported on the active market on which the funds are traded.

The following tables set forth the pension plan assets by valuation technique level, within the fair value hierarchy (there were no Level 3 valued assets):

	2013		
	Level 1	**Level 2**	**Total**
Common collective trusts	$ —	378,538,573	378,538,573
Pooled separate account – debt securities	—	14,362,796	14,362,796
U.S. Treasury securities	—	678,842	678,842
Corporate bonds and other fixed income securities	—	42,501,935	42,501,935
Money market funds	210,307	—	210,307
	$ 210,307	436,082,146	436,292,453

Common collective trust investments included domestic equity securities of approximately $128,507,000, debt securities of approximately $86,930,000, international equity securities of approximately $107,228,000, commodity futures of approximately $15,573,000, and real estate investments of approximately $40,301,000 at September 30, 2013.

		2012		
		Level 1	**Level 2**	**Total**
Common collective trusts	$	—	323,183,359	323,183,359
Pooled separate account – debt securities		—	13,116,764	13,116,764
U.S. Treasury securities		—	9,903,730	9,903,730
Corporate bonds and other fixed income securities		—	14,122,172	14,122,172
Money market funds		210	—	210
	$	210	360,326,025	360,326,235

Common collective trust investments included domestic equity securities of approximately $106,314,000, debt securities of approximately $68,180,000, international equity securities of approximately $93,646,000, commodity futures of approximately $18,021,000, and real estate investments of approximately $37,022,000 at September 30, 2012.

(d) Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

		Pension benefits	Other postretirement benefits
Years ending September 30:			
2014	$	18,676,029	4,323,000
2015		19,306,378	4,997,814
2016		20,242,025	5,527,525
2017		21,364,057	6,062,679
2018		22,593,326	6,628,066
2019–2023		140,007,653	42,723,657

(11) MWR 401(k) Savings and Investment Plan

The CNIC maintains a defined-contribution 401(k) savings plan, which covers employees meeting age and length-of-service requirements. Eligible employees may contribute up to the established Internal Revenue Service limits. The employer matches up to 3% of the employee's contribution to the 401(k) plan. The matching contribution was $5,332,713 and $4,858,958 for the years ended September 30, 2013 and 2012, respectively, and is included in general and administrative expenses, net, in the accompanying combined statements of loss.

(12) Summary of Significant Affiliate Transactions

CNIC received $5,756,803 and $540,633 in NEXCOM dividends during the years ended September 30, 2013 and 2012, respectively. Because NEXCOM is a NAFI of the U.S. Department of the Navy, it is considered an affiliate of CNIC.

Transfers from other NAFIs represented net amounts provided by the local installations for facility construction and improvements, and were $16,138,272 and $14,202,031 during the years ended September 30, 2013 and 2012, respectively.

Capital assets and grants transferred from CNIC to local installations were $34,535,950 and $7,862,569 during the years ended September 30, 2013 and 2012, respectively.

Facility grants transferred from CNIC to local installations were $16,492,239 and $22,357,614 during the years ended September 30, 2013 and 2012, respectively.

Facility and operating grants received represented amounts provided by local installations for facility and operating projects and programs, and were $308,778 and $15,331,129 during the years ended September 30, 2013 and 2012, respectively.

During the years ended September 30, 2013 and 2012, the Navy Fisher Houses received $9,945,000 and $9,988,000, respectively, in cash capital contributions from the Department of Defense to fund future growth and operations of the Navy Fisher Houses.

Assessments on MWR installations consisted of the MWR Funds' allocation of employee benefits and insurance costs of $69,944,216 and $63,770,438 in 2013 and 2012, respectively.

Assessments on NGIS installations consisted of the NGIS' allocation of employee benefits and insurance costs of $14,071,553 and $13,396,174 in 2013 and 2012, respectively.

Assessments are levied on ship store profits at approximately 3.5% of sales and were $1,481,167 and $1,793,061 in 2013 and 2012, respectively.

A 5% assessment was levied on NGIS field operations program revenue in 2013 and 2012, respectively. These assessments were $9,945,235 and $9,280,618 in 2013 and 2012, respectively.

The Navy Motion Picture Service supports the Marine Corps, Military Sealift, National Oceanographic Administration, and Coast Guard through reimbursements based on historic trends. The reimbursements were $1,062,220 and $1,202,055 in 2013 and 2012, respectively.

(13) Self-Insurance

The Funds have established a program of self-insurance for property and general liability claims except when claims exceed a predetermined amount. Claims charged to operations amounted to $558,288 and $490,282 in 2013 and 2012, respectively, and are included in general and administrative expenses.

The Funds have entered into an agreement with their medical insurance carrier. Under the terms of this agreement, the Funds will self-insure all claims except when total claims exceed a predetermined amount.

Claims settled by the Funds under this agreement totaled $33,074,135 and $35,146,115 for the years ended September 30, 2013 and 2012, respectively, and were paid out of operating cash funds and charged to the appropriate insurance account under general and administrative expenses.

The Funds participate in a self-insured workers' compensation program. Claims settled under this program totaled $6,168,110 and $5,672,121 for the years ended September 30, 2013 and 2012, respectively, and were paid out of operating cash funds and charged to the appropriate insurance account under general and administrative expenses. This program has been approved by the Department of Labor. The Funds have a commercial letter of credit with a bank in the amount of $12,100,000 for the benefit of the Department of Labor, which serves as security for this program. The letter of credit expires on August 23, 2014.

The Funds have established reserves for future payments of self-insurance claims of $27,383,000 and $24,900,286 at September 30, 2013 and 2012, respectively.

(14) Litigation

The Funds are subject to certain legal proceedings and claims that have arisen in the ordinary course of business and have not been finally adjudicated. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material adverse effect on the Funds' financial position and results of operations.

(15) Uniform Fund Management Program

The Uniform Fund Management Program was established to aid in the efficient, cost-effective execution of operations, and maintenance of MWR programs through the use of appropriated funds. The Funds receive approval for the amount of appropriated funds to be used annually for operating expenses. Appropriated funds are paid to the MWR and MWR Capital Funds in advance for the first three quarters of the year. For the fourth quarter, funds are received as approved expenses are incurred. Expenses incurred but not yet paid by appropriated funds, are included in accounts receivable. The offset of such expenses has been netted against general and administrative expenses as follows for the years ended September 30, 2013 and 2012:

		2013	2012
General and administrative	$	262,845,529	271,789,924
Offset from appropriated funds [(note 2(a))]		(120,207,736)	(134,268,781)
	$	142,637,793	137,521,143

(16) Accumulated Other Comprehensive Loss

The following table lists the beginning balances, yearly activity, and ending balances of each component of accumulated other comprehensive loss:

	Adjustment for pension and other postretirement benefits	Change in fair value of available-for-sale securities	Accumulated other comprehensive loss
Balance at September 30, 2011	$ (173,108,241)	11,751,821	(161,356,420)
Fiscal 2012 change	(114,975,255)	(724,345)	(115,699,600)
Balance at September 30, 2012	(288,083,496)	11,027,476	(277,056,020)
Fiscal 2013 change	184,062,771	(9,159,882)	174,902,889
Balance at September 30, 2013	$ (104,020,725)	1,867,594	(102,153,131)

SUPPLEMENTARY INFORMATION

KPMG LLP
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Independent Auditors' Report on Supplementary Information

Mr. Ed Cannon, Director, Fleet and Family Readiness Programs, CNIC N9
and
Morale, Welfare and Recreation and Navy Exchange Audit Committee:

We have audited the combined financial statements of Commander, Navy Installations Command, Central Nonappropriated Funds prepared on the basis of accounting prescribed or permitted by the Department of Defense, Office of the Comptroller of Commander, Navy Installations Command, Central Nonappropriated Funds as of and for the year ended September 30, 2013, and have issued our report thereon dated August 14, 2014, which contained an unmodified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole.

The supplementary information in schedules 1 and 2 is presented for the purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Norfolk, Virginia
August 14, 2014

Schedule 1

CNIC CENTRAL NONAPPROPRIATED FUNDS

Combining Balance Sheet by Fund

September 30, 2013

(Basis prescribed by the Department of Defense, Office of the Comptroller)

Assets	MWR	MWR Capital Fund	Flying Club	Civilian NAFI	NGIS	NGIS Capital Fund	Fisher Houses	CNIC HQ	Total
Cash and cash equivalents	$ (82,708,302)	11,242,443	334,812	842,517	6,929,308	50,317,448	46,914,341	(49,610)	33,822,957
Investments and certificates of deposit	1,028,828,196	—	—	—	—	—	—	—	1,028,828,196
Accounts receivable	55,735,907	—	—	—	—	—	77,530	1,114,567	56,928,004
Accrued interest receivable	2,918,740	—	—	—	—	—	—	—	2,918,740
Prepaid expenses	2,757,503	—	—	—	—	—	—	198,391	2,955,894
Net property, plant, and equipment, and construction in progress	336,119	19,681,265	—	—	—	—	4,560	—	20,021,944
Advances for capital projects	—	32,903,273							32,903,273
Loans receivable	8,816	40,913,323	—	—	—	—	—	—	40,922,139
Total assets	$ 1,007,876,979	104,740,304	334,812	842,517	6,929,308	50,317,448	46,996,431	1,263,348	1,219,301,147
Liabilities and Net Worth (Deficit)									
Liabilities:									
Accounts payable	$ 34,232,980	474,180	—	—	—	—	89,506	1,087,671	35,884,337
Accrued salaries, wages, and employee benefits	6,258,585	—	—	—	127,043	—	87,585	—	6,473,213
Borrowings against reverse repurchase agreement	25,156,250	—	—	—	—	—	—	—	25,156,250
Deferred revenue	223,324,078	108,377,318	—	—	—	—	—	175,677	331,877,073
Accrued self-insurance	23,022,572	—	—	—	4,360,428	—	—	—	27,383,000
Deposits from installations for investment:									
Installations	587,269,329	—	—	—	—	—	—	—	587,269,329
Secretary of Defense	53,961,951	—	—	—	—	—	—	—	53,961,951
Armed Forces Retirement Home	1,698,563	—	—	—	—	—	—	—	1,698,563
Warfighter and Family Services	22,205,358	—	—	—	—	—	—	—	22,205,358
United States Naval Academy	21,317,451	—	—	—	—	—	—	—	21,317,451
Capital asset investment liability	—	5,385,363	—	—	—	—	—	—	5,385,363
Unfunded pension liability	13,530,400	—	—	—	24,369,633	—	—	—	37,900,033
Postretirement benefit obligation	129,039,885	—	—	—	44,157,334	—	—	—	173,197,219
Reserve for foreign national liabilities	775,000	—	—	—	—	—	—	—	775,000
Total liabilities	1,141,792,402	114,236,861	—	—	73,014,438	—	177,091	1,263,348	1,330,484,140
Reinvested earnings (deficit)	(58,631,112)	(9,496,557)	334,812	842,517	(39,216,309)	50,317,448	46,819,340	—	(9,029,861)
Accumulated other comprehensive loss	(75,284,311)	—	—	—	(26,868,821)	—	—	—	(102,153,132)
Total net worth (deficit)	(133,915,423)	(9,496,557)	334,812	842,517	(66,085,130)	50,317,448	46,819,340	—	(111,182,993)
Total liabilities and net worth (deficit)	$ 1,007,876,979	104,740,304	334,812	842,517	6,929,308	50,317,448	46,996,431	1,263,348	1,219,301,147

See accompanying independent auditors' report and auditors' report on supplementary information.

Schedule 2

CNIC CENTRAL NONAPPROPRIATED FUNDS

Combining Statement of Earnings (Loss) by Fund

Year ended September 30, 2013

(Basis prescribed by the Department of Defense, Office of the Comptroller)

	MWR	MWR Capital Fund	Flying Club	Civilian NAFI	NGIS	NGIS Capital Fund	Fisher Houses	CNIC HQ	Total
Support and revenue:									
Assessment on MWR installations	$ 69,944,216	—	—	—	—	—	—	—	69,944,216
Assessments on NGIS installations	14,071,553	—	—	—	—	—	—	—	14,071,553
Assessments on NGIS field operation sales	—	—	—	—	9,945,235	—	—	—	9,945,235
Assessments on ship's store sales and reimbursements	1,481,167	—	—	—		—	—	—	1,481,167
Special projects revenue	13,540,149	720,481	86,940	—	—	—	118,486	1,991,326	16,457,382
Common support services	1,623,879	—	—	105,218	—	—	—	4,889,779	6,618,876
Facility and operating grants received	—	308,778	—	—	—	—	—	—	308,778
Navy motion picture admissions	1,062,220	—	—	—	—	—	—	—	1,062,220
Miscellaneous	670,169	1,903,876	5,398	29,215	889,491	—	1,081,170	—	4,579,319
Total support and revenue	102,393,353	2,933,135	92,338	134,433	10,834,726	—	1,199,656	6,881,105	124,468,746
Expenses:									
General and administrative, net	106,530,655	6,447,536	123,977	97,110	21,285,638	70,023	1,201,749	6,881,105	142,637,793
Facility and operating grants disbursed	30,843,911	3,266,149	—	—	356	—		—	34,110,416
Total expenses	137,374,566	9,713,685	123,977	97,110	21,285,994	70,023	1,201,749	6,881,105	176,748,209
Net earnings (loss) from operations	(34,981,213)	(6,780,550)	(31,639)	37,323	(10,451,268)	(70,023)	(2,093)	—	(52,279,463)
Other income:									
Investment income	13,528,811	—	—	—	2,496,275	—	607,560	—	16,632,646
NEXCOM dividend	—	5,756,803	—	—	—	—	—	—	5,756,803
Net earnings (loss)	$ (21,452,402)	(1,023,747)	(31,639)	37,323	(7,954,993)	(70,023)	605,467	—	(29,890,014)

See accompanying independent auditors' report and auditors' report on supplementary information.

KPMG LLP
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440 Monticello Avenue
Norfolk, VA 23510

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Mr. Ed Cannon, Director, Fleet and Family Readiness Programs, CNIC N9
and
Morale, Welfare and Recreation and Navy Exchange Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the Commander Navy Installations Command (CNIC) Central Nonappropriated Funds (the Funds), which comprise the combined balance sheet as of September 30, 2013, and the related combined statements of loss, comprehensive loss, changes in net deficit, and cash flows for the year then ended and the related notes to the combined financial statements, and have issued our report thereon dated August 14, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

The Funds' Response to Findings

The Funds' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Funds' response was not subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
August 14, 2014

Significant Deficiency

During our testing of CNIC's construction-in-progress (CIP), we noted numerous CIP projects that had been completed and were in service at the Morale, Welfare and Recreation Fund's (MWR) installations as of September 30, 2013, but had not been appropriately transferred to the Fund and removed from CNIC's CIP. This resulted in an overstatement of construction in progress in the amount of $55.9 million, an understatement of loans receivable and an understatement of net deficit of $19.3 million and $36.6 million respectively.

In order to ensure the accuracy of financial reporting, CNIC should ensure it has proper controls in place relating to the transfer of completed projects to MWR and that these controls are operating effectively.

Management's Response to Significant Deficiency

Management has put in place additional controls, designed to track and monitor project status as each moves toward completion. These controls provide additional check points and monthly reviews of project status.

CNIC N944 has responsibility to report monthly the status of all projects and to examine very closely those projects approaching completion. To aid in this monthly review, N944 has developed a color coded status indicator system to display projects in one of five categories: 1 – Active, not completed; 2 – Complete and Usable, ready for transfer for depreciation; 3 – Transferred for Depreciation, awaiting financial close-out; 4 – Transferred for depreciation and financially closed out; and 5 – Executed by the region as a NAF grant or Region-funded project. Projects executed by regions are carried in the region's construction-in-progress (CIP) account, with responsibility for transferring the asset for capitalization being with the region. In order to properly monitor locally executed projects, N944 contacts regions monthly to determine the execution status of locally executed projects. Additionally, CNIC Fiscal Oversight reviews locally executed projects as part of region fiscal oversight reviews to further ensure that these projects are being properly put into service.

N944 has developed lines of responsibility for monitoring project status. N944 Project Managers/Design Managers are responsible for informing the Facility Projects Analyst, the Facilities Section Head and the Facilities NAF Resources Manager of projects that are completed and usable. The Facility Projects Analyst and the Facilities Section Head are responsible for coding completed projects to notify the Resources Manager to transfer the projects for depreciation. Project status reports for all years and programs for which there are active projects are examined by the Facilities Section Head and the Facilities and Acquisition Branch Head monthly prior to forwarding to the N948 Finance Branch for additional review and update. The standard is that no project will be shown as awaiting Transfer for Depreciation for more than one month, with a goal of having all projects transferred no later than two weeks after they become complete and usable. Additionally, prior to the end of each fiscal year, all projects not transferred for depreciation will be reviewed to ensure that no complete and usable facilities remain awaiting transfer at year end.

Management believes the additional reviews performed within N944 and N948 will ensure that project status is properly monitored and that projects will be properly transferred upon their being placed into service.